Preston

MINES LIMITED

Annual Report 1970

Preston

MINES LIMITED

ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held on Friday, April 23, 1971 at 11:00 a.m. (Toronto time) in the Conference Room, 26th floor, 120 Adelaide Street West, Toronto, Canada.

Annual Report 1970

Preston Mines Limited

Officers

R. D. Armstrong	President
G. R. Albino	Vice-President
W. P. Arnold	Vice-President
G. Baker	Vice-President
A. C. Turner	Secretary
J. Van Netten	Treasurer

Directors

G. R. Albino
R. D. Armstrong
W. P. Arnold
G. Baker
J. I. Crookston
Dr. G. B. Langford
R. D. Lord
B. R. MacKenzie, Q.C.
W. C. Pitfield
J. R. Robinson

Head Office

120 Adelaide Street West, Toronto, Canada

Bankers

The Toronto-Dominion Bank — Toronto, Ontario

Solicitors

Hetherington, Fallis, Park & Tascona — Toronto, Ontario

Auditors

Coopers & Lybrand, Chartered Accountants — Toronto, Ontario

Transfer Agents

Common Shares

Canada Permanent Trust Company	Toronto, Ontario
Canadian Bank of Commerce Trust Company	New York, N.Y.

Common Shares Listed

Toronto Stock Exchange	Toronto, Ontario
American Stock Exchange	New York, N.Y.

Directors' Report

Your Directors are pleased to submit this report on the operations and financial position of the Company for the year ended December 31, 1970.

Financial

The Company's net earnings for the year 1970 were $2,264,751, representing 29 cents per share on the average number of shares outstanding during the year, as compared with $2,304,777 or 29 cents per share in the previous year. The Company's earnings, as in the past number of years, came substantially from dividends received on its 43.94% share interest in Rio Algom Mines Limited. In 1970 these dividends amounted to $2,152,960, the same amount as in the previous year.

Two dividends of 14¢ per share each were paid by the Company in 1970, the first being on June 30 and the second on December 31, amounting in total to $2,197,813.

Stanleigh Property

As previously reported, preliminary estimates of ore reserves, capital costs and operating costs indicate that the uranium price required to make the Company's Stanleigh uranium property viable is significantly above prices available at present and therefore, it is not expected that the Stanleigh uranium mine will be reopened for some time.

Investment in Rio Algom Mines Limited

No change has been made in the Company's investment in Rio Algom which remains at 5,382,400 common shares, representing an interest of 43.94% of the issued common shares of that company.

With the consent of Rio Algom and for your information, the report of the Directors of that Company to its shareholders for 1970 is reproduced in full as part of this report. In view of the importance of the Lornex Project to Rio Algom, with the consent of Lornex Mining Corporation Ltd. and for your further information, the entire annual report of that Company for the year ended December 31, 1970 is forwarded to you with this report.

On behalf of the Board
R. D. Armstrong
President

Toronto, Canada
March 5, 1971

Auditors' Report

To the Shareholders of Preston Mines Limited:

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1970 and the statements of earnings and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and source and disposition of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 3, 1971.

COOPERS & LYBRAND
Chartered Accountants

Preston Mines Limited

(Incorporated under the laws of Ontario)

Statement of Financial Position
December 31, 1970

	1970	1969
CURRENT ASSETS:		
Cash	$ 95,075	$ 94,421
Short term investments, at cost, and deposits	1,197,311	1,184,919
Accounts receivable	56,808	21,293
Estimated amount receivable under The Emergency Gold Mining Assistance Act	—	7,067
Accounts receivable from affiliated companies	3,244	2,742
Prepaid expenses	416	30,079
	1,352,854	1,340,521
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	14,467	47,965
Unclaimed dividends	138,013	144,014
	152,480	191,979
WORKING CAPITAL	1,200,374	1,148,542
Investment in Rio Algom Mines Limited (note 1):		
5,382,400 common shares, at cost	50,828,700	50,828,700
Debentures, at cost	477,500	477,500
Mining properties, less amortization (note 2)	2	2
Deferred development expenditure	592,860	577,754
EXCESS OF ASSETS OVER LIABILITIES	$53,099,436	$53,032,498
OWNERSHIP EVIDENCED BY:		
Capital Stock —		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
7,849,333 common shares	$26,910,985	$26,910,985
Contributed surplus	24,993,673	24,993,673
Retained earnings	1,194,778	1,127,840
	$53,099,436	$53,032,498

Approved on behalf of the Board:

R. D. ARMSTRONG, Director

BRYCE MacKENZIE, Director

Statement of Earnings and Retained Earnings

YEAR ENDED DECEMBER 31, 1970

EARNINGS

	1970	1969
REVENUE:		
Proceeds from sales of plant and equipment	$ 229,815	$ 174,451
Less cost of reconditioning equipment sold	43,529	15,862
	186,286	158,589
Add:		
Dividends received from Rio Algom Mines Limited	2,152,960	2,152,960
Investment and other income	134,110	144,189
	2,473,356	2,455,738
EXPENSE:		
Idle mine expense	136,348	64,962
Administrative and general expense	72,257	85,999
	208,605	150,961
NET EARNINGS FOR THE YEAR (note 3)	$ 2,264,751	$ 2,304,777
Net earnings per common share	29¢	29¢

Note: Certain minor changes in classification have been made in the 1969 figures to make them comparable.

RETAINED EARNINGS

	1970	1969
BALANCE, beginning of year	$ 1,127,840	$ 1,020,876
Net earnings for the year	2,264,751	2,304,777
	3,392,591	3,325,653
Dividends on common shares	2,197,813	2,197,813
BALANCE, end of year	$ 1,194,778	$ 1,127,840

Statement of Source and Disposition of Funds

YEAR ENDED DECEMBER 31, 1970

	1970	1969
SOURCE OF FUNDS:		
Net earnings for the year	$ 2,264,751	$ 2,304,777
DISPOSITION OF FUNDS:		
Dividends on common shares	2,197,813	2,197,813
Deferred development on Stanleigh uranium property	15,106	262,526
	2,212,919	2,460,339
INCREASE (Decrease) in working capital	$ 51,832	$ (155,562)

Notes to Financial Statements

DECEMBER 31, 1970

1. The Company's investment in Rio Algom Mines Limited is not of a temporary nature. The quoted market value of the shares at December 31, 1970 was $84,773,000 (1969 — $98,229,000). The actual value of these shares may be more or less than that indicated by market quotations. The quoted market value of the debentures was $395,000 at December 31, 1970.

2. Plant and equipment, and mining properties

Plant and equipment consists of:

	1970	1969
Buildings, machinery and equipment, at cost	$11,339,525	*$12,661,054*
Less accumulated depreciation	11,339,525	*12,661,054*
	$ —	*$ —*

	1970	1969
Mining properties consist of:		
Mining properties, at cost	$ 1,752,654	*$ 1,752,654*
Less accumulated amortization	1,752,652	*1,752,652*
	$ 2	*$ 2*

During the year the Company reduced plant and equipment by an amount of $8,617,665 to eliminate residual balances in respect of uranium mining assets sold, dismantled or scrapped. Since these had been fully depreciated a corresponding amount was removed from accumulated depreciation. Comparative figures for 1969 have been adjusted to give effect to the reductions.

3. Income and mining taxes

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the company has no liability for income or mining taxes for the year.

4. Remuneration of directors and senior officers

During the year ended December 31, 1970 the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was $28,430.

Rio Algom Mines Limited

Directors' Report (referred to on page 3)

Your Directors are pleased to submit this report on the operations and financial position of the Company for the year ended December 31, 1970.

Financial

Consolidated net earnings from operations in 1970 before extraordinary charges were $15,406,000 or $1.19 per share as compared with $15,361,000 or $1.18 per share in 1969. After extraordinary charges of $658,000 arising from the write-down of marketable securities to net realizable value and of $672,000 resulting from the unpegging of the Canadian dollar, the consolidated net earnings for 1970 were $14,076,000 or $1.08 per share compared to $15,361,000 or $1.18 per share in 1969 when there were no extraordinary items. In all cases the earnings per share are stated after provision for dividends on preference shares.

The slight increase in consolidated net earnings before extraordinary charges resulted from an increase in net earnings from steel operations of $2,021,000, a reduction in corporate expenses, net interest costs and taxes of $708,000 and a decrease in earnings from mining operations of $2,684,000. The record earnings from steel operations reflect a better product mix, some price increases and improved manufacturing performance, achieved despite substantial increases in the cost of labour and raw materials. The reduction in earnings from mining operations was the result of a substantially lower level of copper prices and increased expenditures on exploration, partially offset by improved uranium production resulting from a higher milling rate and a better average ore grade.

On May 30, 1970 the Government of Canada freed the Canadian dollar from the exchange rate at which it had previously been pegged to the United States dollar. The Canadian dollar rose in relation to the United States dollar from a discount of approximately 7½% to a discount of approximately 1% at December 31, 1970; a similar movement of exchange rates occurred in relation to all other foreign currencies. In realizing, during the normal course of business, its net current assets held in foreign funds on May 30, 1970 the Company incurred a loss of $672,000 which was charged as an extraordinary item against 1970 earnings. In addition, the Company suffered substantial reductions in revenue and net earnings of both mining and steel operations as a result of the lower value in Canadian dollars of sales made in foreign currencies subsequent to May 30, 1970.

During 1970 dividends of $830,000 on preference shares and $4,900,000 on common shares were paid. Dividends on common shares were paid at the same rate of 40¢ per share as in 1969 and represented 34.8% of consolidated net earnings.

Bank loans increased during the year from $2,849,000 to $4,430,000. The loans to Anglo-Rouyn Mines Limited and Mines de Poirier Inc., which at their maximum totalled $13,000,000 and amounted to $1,485,000 at December 31, 1969, were paid off during the year; borrowings to finance the construction of the Utah uranium mine amounted to U.S. $3,892,000 in 1970 and totalled U.S. $4,172,000 at the end of the year. The net excess of assets over liabilities increased to $176,079,000 from $167,477,000. During the year $11,396,000 was expended on capital projects and $18,540,000 was invested in securities of Lornex Mining Corporation Ltd.

Under the terms of Rio Algom's uranium sales contract with Eldorado Nuclear Limited net advance payments of $933,000 remain to be repaid during 1971.

Mining

Uranium operations of the Quirke mines and mill at Elliot Lake averaged 4,231 tons per day. Tests have confirmed the capability of the Quirke mines and mill to maintain a milling rate of 4,500 tons of ore per day. This proven increased production capacity is sufficient to meet deliveries into the mid 1970's under present sales contracts.

During 1970 scheduled deliveries from the Elliot Lake operation were made under the long term contracts previously entered into with Eldorado Nuclear Limited, eight Japanese electric power utilities and Ontario Hydro. Deliveries under these contracts, together with the contract concluded with the United Kingdom Atomic Energy Authority for deliveries to start during 1972, provide a base for continuous uranium mining operations and employment at Elliot Lake into the 1980's.

Three new uranium orders were received during the year. The first was for 955,000 pounds of uranium oxide for delivery in 1972 to Kernkraftwerk Brunsbuttel GMBH, West Germany, from Elliot

Lake; the second for 500,000 pounds of uranium oxide for delivery in 1973 to Sydsvenska Kraftaktiebolaget of Sweden from the new mine in Utah and the third for 27,500 pounds of uranium oxide to be delivered in 1971 to Canadian Westinghouse Company Ltd. from Elliot Lake.

Total copper production was down slightly from 1969 due to the shutdown of the Pronto mine in April 1970 when all ore had been mined. However, the effect of the Pronto shutdown was largely offset by increased production at Mines de Poirier due to a higher milling rate and improvement in ore grade and mill recovery. Copper prices dropped continuously after the first quarter of the year and the average price for the year was substantially below the average price for 1969 with a consequent decline in revenue and earnings from copper operations. The assets, property and business of Mines de Poirier Inc., a wholly owned company, were purchased by Rio Algom as at February 28, 1970.

Research and development programs directed toward reducing mine and mill costs and to increasing productivity were continued during the year. At the New Quirke mine development is under way to assess a new mining method in Elliot Lake based on longhole drilling in conjunction with the use of backfill which, if successful, will permit increased mechanization and increase recovery of ore from pillars where thickness of the ore exceeds ten feet.

Exploration

Expenditure on the search for new orebodies in Canada and the United States has been increasing over the past several years. In 1970 net expenditure on exploration by the Company and its subsidiaries on their own account and through participation with others was $2,006,000 compared with $1,621,000 in 1969 and $1,257,000 in 1968.

During the year programs were continued in exploration for base metals and broadened to include industrial minerals. The search for coking coal in the eastern foothills of the Canadian Rocky Mountains was expanded. Exploration for uranium in Canada was limited to properties in which an interest was held in March 1970 when the Government of Canada announced its intention to limit foreign ownership in the Canadian uranium industry. The search for uranium prospects in the United States was continued.

During the year an agreement was entered into whereby a majority interest may be earned in a coal property in southeastern British Columbia and a working option was taken on an asbestos property in northwestern Quebec. Examination of these prospects together with the continuation and expansion of other programs is expected to increase 1971 exploration expenditures over the 1970 level.

Mine Development

Lornex Project

On August 14, 1970 the shareholders of Lornex Mining Corporation Ltd. approved financing and related agreements for the development and construction of its copper-molybdenum mine in the Highland Valley area of British Columbia. These agreements included a Construction and Management Agreement between Rio Algom and Lornex whereby Rio Algom agreed to assume responsibility for the construction of the Lornex Project and to supervise and manage the business of Lornex both during construction and thereafter for a period of at least fifteen years from December 31, 1969. Preparatory work had been carried out prior to the date of Lornex shareholders' approval and permitted development and construction work to begin immediately following the approval of the financing and related agreements.

Plans call for production to begin in the second quarter of 1972 and when operating at design capacity of 38,000 tons of ore per day, annual output is estimated at 162,000 short tons of copper concentrate and 2.5 million pounds of molybdenum in concentrate over the expected twenty-one year life of the orebody.

Preparation of the open pit for production being carried out by Lornex involving the removal of a currently estimated 47 million tons of preproduction material is substantially on schedule. At the end of the year engineering design was approximately 50% complete. Excavation for the crusher, concentrator and service buildings was essentially complete and much of the required concrete had been poured for building footings and foundations. Development of a townsite at Logan Lake some eleven miles from the mine site and forty miles from Kamloops is proceed-

ing on schedule. Construction of all phases of the project has been hindered somewhat due to unusually heavy snow and ice conditions.

It had been expected that other mining companies in the Highland Valley would participate in joint development of tailings and water systems on a shared cost basis. Since the other companies have not taken a final decision to proceed with development of their mining projects, Lornex is developing these systems independently. Previously signed agreements provide for participation of these companies at a later date, and if they do participate, Lornex will recover a pro rata share of the capital cost of the water intake portion of the water system and of the tailings area development.

Previously it was reported that the financial requirements of Lornex were expected to exceed the original estimate of $123.6 million by 6% to 8%. Based on the definitive engineering completed to date, it is estimated that $133.0 million will be required to bring the mine into production. The increase in cost has occurred because of the delay in start-up of construction, the unusual degree of cost escalation experienced (which was accentuated by the delay in the start-up of construction), the complexity of the tailings disposal system, the need to comply with more stringent pollution regulations and the deferral of participation by other mining companies in the development of the tailings and water systems.

Capital expenditures of Lornex for the year were $23,870,000 and total capital expenditures on the project to December 31, 1970 including accrued interest, financing expenses and exploration expenses were $34,121,000. Development and construction commitments at December 31, 1970 were approximately $15,700,000.

During the year the Company purchased from Lornex Units consisting of Income Debentures and Class A shares of Lornex for $21,240,000 and The Yukon Consolidated Gold Corporation Limited purchased from Lornex Units consisting of Income Debentures and common shares of Lornex for $2,360,000. Lornex repaid the Company and Yukon advances which had been made in 1969 and 1970, amounting to $9,180,000 and $1,020,000 respectively, to permit preparatory work on the Lornex Project to be carried out.

A Japanese consortium has agreed to purchase Units of common shares and promissory notes of Lornex for U.S. $26,500,000; purchases to date total U.S. $20,000,000. Under a bank loan agreement three Canadian banks are to lend a total of $60,000,000 secured by a pledge of First Mortgage Bonds. A maximum of $4,000,000 is to be provided for housing loans by Central Mortgage and Housing Corporation and Canadian banks. Further funds required may be provided, in whole or in part, by Rio Algom under the Construction and Management Agreement. Such funds may be required to be provided prior to the banks advancing funds to Lornex. If Lornex is unable to reimburse Rio Algom in cash for defined construction period costs and operating period costs incurred by Rio Algom under that agreement, Rio Algom may elect either to postpone reimbursement or, in lieu thereof, elect to accept Units of Income Debentures of Lornex in principal amount equal to the amount owing and Class A shares of Lornex. Each such Unit will consist of 80 Class A shares and an Income Debenture of Lornex in the principal amount of $1,000. Yukon has agreed to purchase from Rio Algom 17.5% of any Units that Rio Algom elects to accept and has been granted an option to purchase an additional 10% of such Units. Assuming that Rio Algom elects to accept Units and Yukon does not exercise its option Rio Algom estimates that its net commitment to accept Units will amount to approximately $7,800,000 during 1971 in respect of the estimated increase of project costs from the $123,600,000 originally estimated to $133,000,000 and a further $1,300,000 during 1971 in respect of a shortfall in realization from the Japanese loans as a result of the freeing of the Canadian dollar.

In view of the importance of the Lornex Project to your Company, with the consent of Lornex and for your further information, the annual report of Lornex Mining Corporation Ltd. for the year ended December 31, 1970 is forwarded to you with this report.

Utah Project

Development work during the year for the new uranium mine in Utah, commenced in March 1969, related mainly to sinking of the two shafts necessary to develop the orebody for mining. The sinking of the ventilation shaft was completed at 2,686 feet in November, stations were cut and concreted and work

began on the lateral haulage level. At the end of the year the production shaft had reached a depth of 2,520 feet and the cutting and concreting of the main station and openings at the haulage level was 90% complete. The final depth of this shaft will be 2,665 feet. Other work comprised the completion of a tailings dam, the development of the water supply system and detailed engineering of the mill facilities; construction of the mill was started in September.

After completing 875 feet of one of two parallel haulage drives being driven beneath the orebody from the ventilation shaft to the production shaft, an excess flow of water was encountered on February 12, 1971. Steps are being taken to bring the water flow under control. The production shaft is located 4,000 feet from the ventilation shaft and 3,125 feet from where water was encountered.

Construction and development was on schedule in relation to the planned commencement of operations early in 1972 until this occurrence. The appropriate corrective action and the effect on the completion schedule have not yet been determined. Work is continuing on the production shaft and surface facilities.

The planned production rate is 1,200,000 pounds of uranium oxide per year. Sales contracts for delivery from this mine total 8,400,000 pounds of uranium oxide when deliveries start in 1972 and extend to 1980.

Steel

Steel operations experienced a high level of demand early in the year, particularly for stainless flat rolled products. Favourable sales and profit opportunities developed early in the year for stainless flat rolled products partly due to a shortage of nickel as a result of strikes at major Canadian nickel producers in the latter half of 1969. Beginning in the third quarter demand softened and prices for stainless products declined. During the year employment costs, raw material and other costs escalated at a higher rate than expected.

Record sales reflect increased sales by the domestic warehouse operations, despite the general reduction in the level of domestic economic activity, and a strong overseas market for stainless steel products in Europe and South America in the first half of the year. However, domestic mill sales were adversely affected by the lower level of domestic economic activity and the prolonged automotive strike.

The performance of the Tracy plant continued to improve with consequent reduction in costs. The Welland plant again made substantial progress in upgrading product mix. However, this labour intensive plant has been hard pressed to maintain its profit margins in the face of escalating costs.

The major long term program to modernize the Welland plant, initiated in 1967, continued during the year. The cold draw finishing operations were transferred to a new building and new major bar finishing units have been put into operation. In May a major rehabilitation and re-arrangement of the conditioning department and billet stock area began; six modern machine grinders are being installed, a new outdoor billet stock area is in operation and a new building for the staging and the preparation of billets for rolling has been completed.

Technical support for melting operations has been increased by the installation of a computerized in-process analytical system and programs have been instituted to computerize the economic selection of available raw materials for melting. These and similar facilities are essential to improve basic steel-making capability, to improve technological capability and reduce costs and upgrade the product mix at the Welland plant. The program will continue through 1971 and several subsequent years.

A planning team has been established to undertake special product studies to provide the basis for a product oriented master plan for facilities and product development. The main objective is to improve the return on investment in steel operations. New processes are being studied. A powder metallurgy program which utilizes techniques considered to be unique is ahead of schedule. In addition, increased emphasis is being placed on process research aimed at reducing raw material costs.

Future Outlook

Mining

Orders placed in the United States for new nuclear generating stations showed a marked improvement in 1970 compared with 1969. The extensive nuclear power plant construction programs of the Japanese

electrical utilities were adhered to. In Europe there were some delays in ordering new plants.

The environmental issue, affecting industry generally, caused some delays in power reactor construction and ordering in 1969, principally in the United States. However, since the growing demand for electricity will have to be met and nuclear plants are believed to be superior to fossil-fuelled plants from the environmental standpoint, it seems likely that nuclear plants will continue to take over an increasing proportion of base load electricity generation. Shortages of steam coal and increases in the cost of other energy fuels also occurred during the year. These factors add to the relative attractiveness of nuclear power, and hence uranium, as an alternative power source.

The Company and Rio Algom Corporation, its wholly owned company in the United States, have firm contracts to deliver 53.7 million pounds of uranium oxide which assures continuity of uranium operations into the 1980's.

With regard to copper mines, the development work at Mines de Poirier in 1970 has established ore reserves and grade which extend the life of the mine and enhance its potential profitability.

Steel

The decline in demand for steel products in the fourth quarter of 1970 reflected the slow down in the North American economy, customer inventory adjustments and the prolonged automotive strike. As a result, the order backlog entering 1971 was lower than at the beginning of 1970 and is expected to limit first quarter sales and production schedules.

Employment, raw material and other costs will continue to increase in 1971 but it is anticipated that this will occur at a lower rate than in 1970. Such costs must be controlled to the fullest extent possible and management will continue to monitor this situation very closely. Although it would seem that prices for specialty steels must rise if producers are to recover increased costs it is not possible to predict accurately short run price trends. It is expected, however, that the severe cost-price squeeze will continue in the foreseeable future.

The demonstrated capability of the Tracy plant, the modernization program at the Welland plant and cost reduction and development programs place steel operations in a good position to take advantage of a return to more favourable economic conditions.

Other

There are two Government of Canada proposals that, if enacted into law, will have detrimental effects on the future prospects of the Company.

On November 7, 1969 the Government of Canada presented a White Paper which outlined Proposals for Tax Reform and invited a thorough discussion of such proposals. Because of the impact which certain of these proposals will have, if adopted, on Canada's mining industry and the growth of Canadian industry in general, the Company has submitted its views and made representations directly and through The Mining Association of Canada to the appropriate Federal Parliamentary Committees. The Government of Canada has not yet introduced legislation with regard to the proposed tax changes.

On March 19, 1970 a policy statement was made by the Government of Canada stating its intention to limit foreign ownership of the Canadian uranium industry. Since the indicated policy would have an unreasonable and adverse effect on the Company, appropriate representations have been made to the Government of Canada. This matter is still under review by the Government.

Organization

On November 27, 1970, Mr. N. F. Warren was appointed Lornex Project Manager, and in this capacity he has senior responsibility for construction of the Lornex Project and operation of the mine.

On February 25, 1971, Mr. H. A. Pakrul, formerly Controller, was appointed Vice-President, Controller; Mr. A. C. Turner, formerly Secretary, was appointed Vice-President, Secretary; Mr. J. Van Netten, formerly Treasurer, was appointed Vice-President, Treasurer.

Your Directors wish to express their thanks to all officers and employees of the Company and its associated companies for their loyal and effective efforts in furtherance of the Company's objectives during the past year.

On behalf of the Board

Toronto, Canada.
February 25, 1971.

R. D. Armstrong
President

Rio Algom

Rio Tinto

PRESTON MINES LIMITED

Notice of Annual Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Preston Mines Limited (the "Company") will be held in the Conference Room, 26th Floor, 120 Adelaide Street West, Toronto, Ontario, Canada on Wednesday, April 15, 1970 at the hour of 11:00 o'clock in the forenoon, (Toronto time):

(a) to receive the annual report of the Company for the year ended December 31, 1969;

(b) to elect Directors for the ensuing year;

(c) to appoint Auditors for the ensuing year and to authorize the directors to fix the remuneration of the Auditors; and

(d) to transact such other business as may properly come before the meeting.

PROXIES are being solicited by the management of the Company. Common shareholders are entitled to vote at the meeting either in person or by proxy in accordance with the provisions of The Corporations Act of the Province of Ontario. If you are unable to be present at the meeting, please sign the attached form of proxy and return it in the addressed envelope provided for the purpose. All instruments appointing proxies to be used at the meeting must be deposited with Canada Permanent Trust Company, 1901 Yonge Street, Toronto 7, Ontario, prior to 5:00 P.M. (Toronto time) on Tuesday, April 14, 1970. Instruments appointing proxies not so deposited will not be voted at the meeting.

A copy of the annual report of the Company for the year ended December 31, 1969 is enclosed.

By Order of the Board of Directors,

A. C. TURNER,

Secretary.

Toronto, Canada.

March 4, 1970.

Proxy Statement and Information Circular

All Dollar Amounts in this Proxy Statement and Information Circular
refer to Canadian Dollars, unless
otherwise indicated

This Statement is furnished in connection with the solicitation by the management of Preston Mines Limited (hereinafter sometimes called "Preston" or "the Company") of proxies to be voted at the Annual Meeting of Shareholders of the Company to be held on April 15, 1970 for the purposes set forth in the accompanying notice of the said meeting.

VOTING RIGHTS

As at March 4, 1970 there were outstanding 7,849,333 common shares of the Company without par value. Each of such shares is entitled to one vote and does not have cumulative voting rights. All holders of common shares of record on April 15, 1970, the date of the Annual Meeting, are entitled to vote, but those desiring to be represented thereat by proxy must deposit their executed forms of proxy with Canada Permanent Trust Company, 1901 Yonge Street, Toronto, prior to 5:00 P.M. (Toronto time) on April 14, 1970. A return envelope for this purpose is enclosed. If the enclosed proxy is executed, it will be voted in accordance with the instructions contained therein, but such proxy may be revoked by the signing shareholder at any time insofar as it has not been exercised, by following the procedure outlined below.

To the knowledge of the nominees for election as Directors and Senior Officers of the Company, the only person or corporation who beneficially owns directly or indirectly more than 10% of the common shares of the Company is The Rio Tinto-Zinc Corporation Limited (Rio Tinto-Zinc), of 6 St. James's Square, London, S.W. 1, England. On March 4, 1970 Rio Tinto-Zinc beneficially owned, through wholly owned subsidiaries 6,349,047 common shares of the Company, representing 80.89% of such shares outstanding. As at the same date the Company beneficially owned 5,382,400 common shares of Rio Algom Mines Limited (Rio Algom), an Ontario corporation, representing 43.94% of such shares outstanding; and Rio Tinto-Zinc was the beneficial owner, through wholly owned subsidiaries, of an additional 1,909,853 common shares of Rio Algom, representing 15.59% of such shares outstanding. Thus, Rio Tinto-Zinc on March 4, 1970 controlled a total of 7,292,253 common shares of Rio Algom representing 59.53% of such shares outstanding; and its total net beneficial interest in such shares represented 51.13% of such shares outstanding. It is intended that the shares beneficially owned by Rio Tinto-Zinc will be voted for the nominees for Directors referred to below.

ELECTION OF DIRECTORS

In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed (or for substitute nominees in the event of contingencies not known at present) who will serve until the next Annual Meeting of Shareholders and until their successors are elected and qualify.

		Shares owned beneficially as at March 4, 1970 according to information received from Director (other than Director's qualifying shares)			
Name	Period of Directorship extends from year below to date hereof	Preston Common	Rio Algom Common	Anglo-Rouyn Mines Limited Common	Rio Tinto-Zinc Ordinary
G. R. Albino	1966	—	—	—	—
R. D. Armstrong	1967	—	25,288	—	—
W. P. Arnold	1960	—	—	10,000	—
G. Baker	1965	109	1	—	—
J. I. Crookston	1960	117	120	—	—
Dr. G. B. Langford	1960	50	—	—	—
R. D. Lord	1960	—	—	—	—
B. R. MacKenzie, Q.C. (1)	1968	117	286	—	—
W. C. Pitfield	1960	—	—	—	—
J. R. Robinson	1969	—	—	—	1,000

(1) Mr. B. R. MacKenzie also owned beneficially as at March 4, 1970, 10 Series C Warrants of Rio Algom and 10 Rio Algom preference shares.

The present principal occupation and association of each of the nominees for director are as follows:

G. R. Albino is Executive Vice-President, Corporate Staff of Rio Algom.

R. D. Armstrong is President of the Company and of Rio Algom.

W. P. Arnold is Vice-President of the Company and Executive Vice-President, Mining Operations of Rio Algom.

G. Baker is Vice-President of the Company and a Director, Vice-President and General Manager of Tinto Holdings Canada Limited, the parent of the Company.

J. I. Crookston is President of Nesbitt, Thomson and Company, Limited, Toronto, investment dealers.

G. B. Langford was Professor of Mining Geology at the University of Toronto, and the Director of the Great Lakes Institute, to the date of his retirement in June 1966.

R. D. Lord is Vice-President, Research & Development, Mining Division of Rio Algom.

B. R. MacKenzie is one of Her Majesty's Counsel and a Partner of Fasken & Calvin, Barristers and Solicitors, Toronto.

W. C. Pitfield is the President of Pitfield, Mackay, Ross & Company Limited, Toronto, investment dealers.

J. R. Robinson is an Executive Director of Rio Tinto-Zinc.

REMUNERATION AND OTHER TRANSACTIONS

The following table sets forth the aggregate direct remuneration paid by the Company and its controlled companies, including Rio Algom, to each person who was a Director of the Company at any time during the fiscal year ended December 31, 1969 and whose aggregate direct remuneration exceeded $30,000; and to each of the three highest paid officers of the Company whose aggregate direct remuneration during such period exceeded that amount; and the aggregate direct remuneration of all persons as a group who were Directors or Officers of the Company at any time during 1969. The table also shows the estimated annual pension benefits to become payable to the named individuals and to all the Directors and Officers of Preston as a group under Rio Algom's pension plan in the event of retirement at normal retirement date, assuming continuation of remuneration at the present rates.

Name of individual or identity of group	Capacities in which remuneration was received	Aggregate direct remuneration paid by the Company and its subsidiary Rio Algom (A)	Estimated annual benefits upon retirement under Rio Algom pension plans (B)
R. D. Armstrong	Director and President of the Company and of Rio Algom	$ 91,900	$ 17,145
G. R. Albino	Director of the Company and Vice-President of Rio Algom	$ 50,987	$ 24,384
W. P. Arnold	Director and Vice-President of the Company and of Rio Algom	$ 50,143	$ 11,360
R. D. Lord	Director of the Company and Vice-President, Research and Development, Mining Division of Rio Algom	$ 39,640	$ 11,507
15 Directors and Officers as a group (including the persons shown above)		$333,293	—

(A) Includes information only with respect to periods during which a person served as a Director or Officer of the Company.

(B) Assuming continuance in the employ of Rio Algom at the current salary rates until normal retirement at age 65.

During the fiscal year ended December 31, 1969 the aggregate direct remuneration paid or payable by Preston to the Directors and Senior Officers of Preston, as such, was $41,796. During the fiscal year ended December 31, 1969 the aggregate direct remuneration paid or payable by Rio Algom (a non-consolidated subsidiary) to the Directors and Senior Officers of Preston was $299,475. Pursuant to a discretionary deferred bonus arrangement in favour of certain of its Senior Officers and employees, Rio Algom has set aside the sum of $473,500 for payments in respect of services rendered to

Rio Algom in 1969. Of this amount, $173,100 has been accrued in respect of six Senior Officers of Rio Algom who are also Senior Officers of Preston. $57,700 is payable on or before March 15, 1970 with $57,700 and $57,700 being payable on or about March 15, 1971 and 1972. Except in the case of death, total disability or retirement, it is a prerequisite to the receipt of any payment in 1971 or 1972 that the Senior Officer or employee have been in the employ of Rio Algom at the end of the preceding year. Under the terms and subject to the conditions of the bonus arrangement, Messrs. R. D. Armstrong, G. R. Albino, W. P. Arnold and R. D. Lord are entitled to receive $25,000, $11,000, $11,000 and $4,000 respectively, in each of the years 1970 to 1972, inclusive. All of the persons who are Senior Officers of Preston as defined in The Securities Act, 1966 (Ontario) are also Officers of Preston within the meaning of the regulations to the Securities Exchange Act of 1934.

Preston has no pension plan. The estimated aggregate cost to Rio Algom during the last fiscal year of all pension benefits proposed to be paid under any normal pension plan in the event of retirement at normal retirement age, directly or indirectly, to the Directors and Senior Officers of Preston was $16,630.

Fees paid or payable by the Company or its controlled companies on an accrual basis to Fasken & Calvin of which B. R. MacKenzie, Q.C. of 73 Riverwood Parkway, Toronto 18, Ontario (a Director of the Company) is a Partner, amounted in 1969 to $42,472.

The following tabulation shows as to certain Directors and Officers and as to all Directors and Officers as a group the amount of options granted under the terms of Rio Algom's Stock Option Plan and the amount of shares subject to all unexercised options as at March 4, 1970.

	G. R. Albino	W. P. Arnold	R. D. Lord	G. Baker	All Directors and Officers as a group
Common shares of Rio Algom Granted March 31, 1967:					
Number of shares	5,000	5,000	2,500		12,500
Per share option price	$24.64	$24.64	$24.64		$24.64
Opening market price	$27.38	$27.38	$27.38		$27.38
Expiration date	March 30, 1977	June 1, 1974 (A)	Jan. 1, 1976 (A)		Mar. 30, 1977 (A)
Granted April 2, 1968:					
Number of shares	1,500	1,500	1,000	2,000	8,000 (B)
Per share option price	$28.35	$28.35	$28.35	$28.35	$28.35
Opening market price	$31.50	$31.50	$31.50	$31.50	$31.50
Expiration date	April 1, 1978	June 1, 1974 (A)	Jan. 1, 1976 (A)	Apr. 1, 1975 (A)	Apr. 1, 1978 (A)
Unexercised at March 4, 1970:					
Number of shares	6,500	6,500	3,500	2,000	20,500 (B)
Average per share option price	$25.50	$25.50	$25.70	$28.35	$26.09

(A) Options granted to certain individuals have earlier expiration dates related to normal retirement dates at age 65.

(B) Certain options have been extinguished by reason of termination of employment with Rio Algom.

None of the options referred to above have been exercised by any Director or Officer of the Company to March 4, 1970.

The price range of the common shares of Rio Algom in the thirty day periods preceding the date of grant was from a low of $24.64 to a high of $28.25 in respect of options granted March 31, 1967 and from a low of $29.64 to a high of $31.88 in respect of options granted April 2, 1968.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS OF THE COMPANY

The following are the material transactions of the Company since January 1, 1969 in which (i) any Director or Senior Officer of the Company; (ii) any proposed nominee for election as a Director of the Company; (iii) any person or company beneficially owning, directly or indirectly, more than 10% of the common shares of the Company; and (iv) any associate or affiliate of any of the persons or companies named in sub paragraphs (i), (ii) or (iii) had a direct or indirect material interest:

1. In 1969, RTZ Services Limited of 6 St. James's Square, London, S.W. 1, England, a wholly-owned subsidiary of Rio Tinto-Zinc, received a management fee from Rio Algom of $225,000. It is anticipated that a fee of $300,000 will be payable for 1970.

Mr. J. R. Robinson of 50 Wolsey Road, Moor Park, Northwood, Middlesex, England (a director of the Company) is an Executive Director of Rio Tinto-Zinc.

2. The Company paid management fees totalling $18,000 to Rio Algom for services rendered in 1969. The Company has entered into a new service contract with Rio Algom dated January 1, 1970 pursuant to which the Company will pay a fee of a like amount for 1970.

3. As at February 27, 1970, Rio Algom owned 1,645,950 or 36.40% of the outstanding shares of Lornex Mining Corporation Ltd. ("Lornex") of 580 Granville Street, Vancouver 2, British Columbia. In December 1969 Lornex entered into a number of agreements relating to the construction of a mine, mill and the ancillary facilities necessary to bring its copper-molybdenite property in the Kamloops District of British Columbia into production and for the financing, management and operation thereof.

The estimated financial requirements of Lornex during the construction and starting-up period for its mining enterprise (the "Lornex Project") are $123,600,000. Of this, $7,400,000 has already been provided through the issue of shares of Lornex. Pursuant to an agreement (the "Bank Loan Agreement") three Canadian chartered banks have agreed to advance $60,000,000 to Lornex against promissory notes collaterally secured by demand First Mortgage Bonds. Pursuant to an agreement (the "Japanese Financing Agreement") nine Japanese smelting and trading companies (the "Security Purchasers") have agreed to purchase 150,000 common shares of Lornex and approximately $28,600,000 principal amount of promissory notes of Lornex collaterally secured by Second Mortgage Bonds. It is anticipated that an additional $4,000,000 will be provided through mortgage financing on employee housing facilities. Pursuant to an agreement (the "Income Debenture and Share Purchase Agreement") the balance of $23,600,000 is to be provided through the purchase of units of unsecured Income Debentures and shares of Lornex. Rio Algom is a party to this agreement. Particulars of the Income Debenture and Share Purchase Agreement and of each of the agreements to which Rio Algom is a party are set out separately below. Lornex has entered into an agreement (the "Sales Contract") to sell to the Security Purchasers the copper concentrates produced from the Lornex Project during the first twelve years following commencement of commercial production.

The agreements referred to in the previous paragraph and the Construction and Management Agreement referred to below have been fully executed as of December 1, 1969, and have been placed in escrow with Davis & Company, Barristers & Solicitors, of Vancouver, British Columbia. They will not be delivered or become effective until the interest rate on the Japanese loan is determined and inserted in the Japanese Financing Agreement. This interest rate will be based on the cost of the money borrowed from the Export-Import Bank of Japan and other Japanese banks and cannot be ascertained until the Japanese Financing Agreement and Sales Contract are approved by the Japanese government. At an annual general and extraordinary general meeting of the shareholders of Lornex called for March 31, 1970, the shareholders will be requested to approve the execution of the agreements by Lornex and authorize the directors to fix the interest rate. If a rate is not agreed upon by September 1, 1970, the agreements will be of no further force or effect and be destroyed.

(a) Under an Income Debenture and Share Purchase Agreement between Rio Algom, Lornex and The Yukon Consolidated Gold Corporation Limited ("Yukon") of the Royal Trust Tower, Bentall Centre, 555 Burrard Street, Vancouver, British Columbia, Rio Algom and Yukon (the owner, as at February 27, 1970, of 1,080,000 or 23.9% of the outstanding shares of Lornex) have severally agreed to purchase from Lornex units consisting of $1,000 principal amount of unsecured Income Debentures and 80 shares of Lornex as follows:

	No. of Units	Principal Amount of Income Debentures	No. of Shares
Rio Algom	21,240	$21,240,000	1,699,200 Class A
Yukon	2,360	2,360,000	188,800 common

The purchase price of each unit of $1,000 principal amount of Income Debentures and 80 shares is $1,000. The Class A shares of Lornex comprised in each Unit to be purchased by Rio Algom will be no par value shares. They will be non-voting and non-participating except on a winding-up and will be convertible at any time into common shares of Lornex on a 1 for 1 ratio. The Income Debentures comprised in each unit will be issued under an Income Debenture Indenture between Lornex and Canada Permanent Trust Company, will bear interest at the rate of 8½% per annum from the date of issue and will mature on December 31, 1985. Interest will be compounded quarterly and payment thereof will be deferred until Lornex has sufficient funds available for payment thereof after making payments due under the Bank Loan Agreement and the Japanese Financing Agreement. Repayment of principal is to be made by way of annual sinking fund payments from the operating profits of Lornex after amounts owing under the Bank Loan Agreement and Japanese Financing Agreement and accrued and deferred interest on the Income Debentures have been paid in full.

If, while any Income Debentures remain outstanding, Lornex issues shares to a third party (other than under its stock option plan or under the Construction and Management Agreement and Japanese

Financing Agreement), Lornex must offer sufficient shares to Rio Algom and Yukon to enable them to maintain the same percentage interest in Lornex that they held immediately prior to the issuance of shares to the third party. The purchase price and the terms and conditions of sale must be substantially the same as those applicable to the purchase by the third party.

(b) Pursuant to a Construction and Management Agreement dated as of December 1, 1969, between Rio Algom and Lornex, Rio Algom has agreed to assume the responsibility for the construction of the Lornex Project and supervise and manage the business and operations of Lornex during construction and thereafter for a period of at least fifteen years from December 1, 1969. Rio Algom will incur on behalf of Lornex all defined construction period costs and those operating period costs incurred during the first two years following commencement of commercial production.

Lornex will use the proceeds of the financing and revenue from concentrate sales and other sources, in the first instance, to pay principal and interest on its loans, and thereafter to pay construction and operating period costs incurred by Rio Algom. If the funds available to Lornex after payment of its primary obligations are insufficient to reimburse Rio Algom for construction and operating costs, Rio Algom may elect to postpone payment until after repayment of all amounts owing under the Bank Loan Agreement, Japanese Financing Agreement and Income Debenture Indenture or accept in lieu of payment, units of Income Debentures of Lornex in principal amount equal to the amount owing and Class A shares of Lornex.

Rio Algom's obligation to do work or incur further expenses without being reimbursed in cash is suspended if construction period costs incurred exceed by $20,000,000 the amount for which Rio Algom has been reimbursed in cash, or, in the alternative, if construction period costs together with operating period costs in the aggregate exceed by $30,000,000 the amount for which Rio Algom has been reimbursed in cash until Rio Algom is satisfied that it will be reimbursed in cash by Lornex for such work or expenses. The obligations of Rio Algom to pay construction and operating period costs and to defer payments or accept units in lieu thereof terminate two years after commencement of commercial production, subject to extension for up to twelve months under certain conditions of force majeure.

Any costs which Rio Algom elects to postpone bear interest at the rate of 8½% per annum compounded quarterly with interest on overdue interest but such interest is not payable while amounts are owing under the Bank Loan Agreement, Japanese Financing Agreement or Income Debenture Indenture. The principal of any postponed amount, unless repaid within three months from the date it originally became due, may not be paid while amounts are owing under the Bank Loan Agreement or Japanese Financing Agreement.

Each unit issued to Rio Algom in lieu of repayment will consist of 40 Class A shares of Lornex and Income Debentures of Lornex in principal amount of $1,000 except when units are issued in respect of increased expenditures resulting from force majeure or a modification of the Lornex Project approved by the directors of Lornex in which event Rio Algom will receive 80 Class A shares with each $1,000 principal amount of Income Debentures accepted.

In addition to incurring construction period and operating period costs on behalf of Lornex certain of Rio Algom's officers and full-time employees will, without remuneration from Lornex, assist and advise Lornex. Rio Algom will be responsible for the hiring for Lornex's account of the necessary full-time supervisory and management personnel for the Lornex Project and will make available to Lornex, at Lornex's expense, Rio Algom's head office marketing, engineering, planning, administrative and other technical and financial services.

Management and direction of the development work in respect of the Lornex property has to date been carried on by Rio Algom pursuant to an agreement dated May 1, 1965 between Lornex, Rio Algom, Egil H. Lorntzsen of 4707 Belmont Avenue, Vancouver, B.C. and A. David Ross of 1282 Chartwell Crescent, West Vancouver, B.C. Under that agreement, no moneys or fees were payable to Rio Algom, however, Rio Algom was reimbursed for its expenses. This agreement will be terminated upon the Construction and Management Agreement becoming operative and binding upon Rio Algom and Lornex. The Construction and Management Agreement provides that Lornex will pay to Rio Algom a management fee of $250,000 per annum commencing January 1, 1969.

(c) Pursuant to a Construction and Management Participation Agreement dated as of December 1, 1969 between Rio Algom and Yukon, Rio Algom has agreed to sell to Yukon 17.5% of all units of Income Debentures and Class A shares of Lornex that Rio Algom may from time to time accept in lieu of reimbursement in cash under the Construction and Management Agreement. In addition, Yukon has been granted the option, exercisable in whole but not in part on each purchase date, to purchase an additional 10% of such units. Failure by Yukon to take up the full 10% on any purchase date terminates the option with respect to all subsequent purchase dates. The purchase price for each

unit is $1,000. The foregoing rights and option are subject to the obtaining of all approvals and consents necessary or desirable under any applicable securities or other legislation and the rules and regulations of any stock exchange or other regulatory body having jurisdiction. In addition, Yukon must ensure to Rio Algom's satisfaction that any Income Debentures acquired by Yukon will remain subordinated to Lornex's obligations under the Bank Loan Agreement and Japanese Financing Agreement and must provide Rio Algom with a satisfactory guarantee of the performance of Yukon's obligations.

So long as Yukon is the registered beneficial owner of 10% or more of the outstanding shares of Lornex, the parties will vote their shares to ensure that Yukon will have two nominees (or three if requested) on the board of directors of Lornex and that the remaining directors will be nominees of Rio Algom. This provision of the agreement is intended to replace an existing voting agreement to the same effect between Rio Algom, Yukon and Rio Tinto Canadian Exploration Limited, a company wholly owned by Rio Algom.

(d) Pursuant to a Control Agreement made as of December 1, 1969, between Lornex, Rio Algom, three Canadian chartered banks and the Security Purchasers, Rio Algom is obligated to purchase at least $21,240,000 principal amount of units of Income Debentures and Class A shares of Lornex before any advance of funds is made under the Japanese Financing Agreement or Bank Loan Agreement.

Rio Algom will exchange sufficient of its Class A shares for common shares to ensure that it owns at least 50% of the issued and outstanding voting shares of Lornex at the time of the first advance under the Japanese Financing Agreement and thereafter while amounts are owing under the Bank Loan Agreement or Japanese Financing Agreement and during the term of the Sales Contract. The Security Purchasers have the right during the term of the Sales Contract to nominate one director to the Board of Directors of Lornex and Rio Algom has agreed to vote all its shares in the capital stock of Lornex to elect such nominee. So long as moneys are owing under the Bank Loan Agreement, Japanese Financing Agreement or the Income Debentures, and so long as the Sales Contract remains in force, Lornex may not issue further shares in its capital stock, or change or alter its capital structure if such issue, change or alteration would result in Rio Algom holding less than 50% of the issued and outstanding voting shares of Lornex, unless arrangements have been made with Rio Algom under which Rio Algom will purchase or otherwise acquire such additional shares as may be necessary to enable it to maintain its interest. So long as the Sales Contract remains in force, Lornex is required to retain Rio Algom to manage the business and affairs of Lornex.

R. D. Armstrong of 30 Glenorchy Road, Don Mills, Ontario (a Director and President of the Company) is a Director and President of Rio Algom and of Lornex. G. R. Albino of 2242 High River Court, Port Credit, Ontario (a Director of the Company) is a Director and Executive Vice-President, Corporate Staff of Rio Algom and a Director and Vice-President of Lornex. W. P. Arnold of 355 St. Clair Avenue West, Apt. 1104, Toronto, Ontario (a Director and Vice-President of the Company) is a Director and Executive Vice-President, Mining Division of Rio Algom and a Director of Lornex. A. C. Turner of 229 Owen Boulevard, Willowdale, Ontario (Secretary of the Company) is Secretary of Rio Algom and Assistant Secretary of Lornex. J. Van Netten of 30 Dalmeny Road, Willowdale, Ontario (Treasurer of the Company) is Treasurer of Rio Algom and of Lornex.

4. Rio Algom entered into an agreement dated February 19, 1970 with Rio Tinto Finance & Exploration Limited (Riofinex) of 6 St. James's Square, London S.W. 1, England extending and varying those terms of an agreement, dated December 24, 1968, relating to a uranium prospect discovered by Riofinex in Africa. In summary, the agreements provide that if Riofinex does not meet the conditions under a uranium sales contract entered into by Riofinex with an un-affiliated third party, Rio Algom will deliver 1,144,000 pounds of uranium oxide per year during the period 1976 to 1978 inclusive and will deliver 1,142,000 pounds of uranium oxide per year during the period 1979 to 1982 inclusive, in the place and stead of Riofinex and on substantially the same terms. Rio Algom will be entitled, as consideration for its undertaking, to subscribe to 10% of the total equity share capital issued by any mining company promoted by the Rio Tinto-Zinc group of companies to exploit the uranium prospect in a specified area of Africa, such subscription to be on the same terms as extended to the promoting company. Rio Algom will have no obligation to contribute to the exploration phase of a project to exploit the uranium prospect unless Rio Algom has, by June 30, 1971, entered into an agreement with the un-affiliated third party for the sale of a substantial tonnage of uranium oxide.

Riofinex is a wholly-owned subsidiary of Rio Tinto-Zinc. Mr. J. R. Robinson of 50 Wolsey Road, Moor Park, Northwood, Middlesex, England (a Director of the Company) is an Executive Director of Rio Tinto-Zinc.

At the present time, there are no other material transactions proposed to be entered into by the Company in which (i) any Director or Senior Officer of the Company; (ii) any proposed nominee for election as a Director of the Company; (iii) any person or company beneficially owning, directly or indirectly, more than 10% of the common shares of the Company; and (iv) any associate or affiliate of any of the persons or companies named in subparagraphs (i), (ii) or (iii) has a direct or indirect material interest.

APPOINTMENT OF AUDITORS

The firm of Coopers & Lybrand, Chartered Accountants has been nominated for the office of Auditors of the Company by the management. Coopers & Lybrand, or its predecessor firm, Cooper Brothers & Co., has been regularly appointed to the office of Auditors of a wholly-owned Canadian subsidiary of Rio Tinto-Zinc, the Canadian parent of the Company, and subsidiaries of the company for periods in excess of five years or from inception or acquisition of certain subsidiaries. The management of the Company is informed that no member of this firm has any interest, financial or otherwise, direct or indirect, in the Company or any of its parents or subsidiaries, except for fees received as Auditors of the various companies.

Unless otherwise instructed, proxies which are received pursuant to this solicitation will be voted for the appointment of Coopers & Lybrand as Auditors of the Company.

SOLICITATION OF PROXIES

The Company will bear the cost of preparing, assembling and mailing the Notices of Annual Meeting of Shareholders, Proxy Statements and forms of Proxy for the Annual Meeting of Shareholders. In addition to the use of the mails, proxies may be solicited on behalf of management by Officers, Directors and regular employees of the Company personally or by telephone.

Under the provisions of The Corporations Act (Ontario), a shareholder giving a proxy has power to revoke it. The following is the revocation procedure prescribed in Section 75 (a) (4) of The Corporations Act.

> "In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting, or adjournment thereof, and upon either of such deposits the proxy is revoked."

Each shareholder has the right to designate as his proxy a person other than Mr. Armstrong or Mr. Albino or Mr. Arnold, the management nominees, to attend and act for such shareholder at the Annual Meeting of Shareholders. Any shareholder desiring to exercise such right may do so by striking out the names of the management nominees in the enclosed form of proxy and inserting in the space provided the name of the person so appointed as his proxy, or may do so by executing a proxy in form similar to the enclosed form.

OTHER BUSINESS

The management does not know of any other matters that may come before the meeting. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if any other matter should properly come before the meeting, the shares represented by the enclosed form of proxy will be voted by Mr. Armstrong or Mr. Albino or Mr. Arnold, the management nominees, upon such other matters in accordance with the best judgment of such management nominees.

By Order of the Board of Directors,

A. C. TURNER,
Secretary.

Toronto, Canada,
March 4, 1970.

Printed in Canada

AR37

President's remarks at PRESTON Annual Meeting April 15

As the Company has reported to you, a drilling program was initiated on the Stanleigh property in 1968 to further delineate ore reserves and grade. In total, 12 deep holes have been drilled, covering a good percentage of the Stanleigh ground. All but one hole encountered mineralization. The total cost of the program was $592,000.

Studies are now under way, using the information available to us from the drilling program and the information that had previously been available, to determine whether and how Stanleigh may be brought into production again.

The preliminary estimates of ore reserves, capital costs and operating costs indicate that the uranium price required to make Stanleigh viable is significantly above prices available today. I emphasize that the esimates are preliminary and our studies are not complete, in that there are alternatives what which have not yet been examined. In our judgment, however, shareholders should not expect an early reopening of the mine. We intend to continue these studies to find the optimum way to reactivate Stanleigh, but the timing of the reactivation will depend on price levels and the availability of long term contracts for the purchase of the product.

The annual report contains a reproduction of the report of the Directors of Rio Algom Mines Limited dated February 27, 1970. This report includes a description of the status of the Lornex project at that date and describes the formal sales and financing contracts that were signed in December, 1969. The subsequently enacted British Columbia Mineral Processing Act has had the effect of placing these sales and financing arrangements in jeopardy.

We are actively seeking a solution to this situation but it is not possible to predict the outcome as of this date.

I invite you to remain at the conclusion of the meeting for the showing of a film depicting the activities of Rio Algom during 1969. The showing takes approximately 18 minutes.

Because of the importance of the Stanleigh drilling program to the Company we have prepared a map showing the drilling pattern that was carried out. I shall now ask Dr. G. B. Langford to comment on this to you.

(Dr. Langford comments and replies to questions.)